MORTGAGE BANKING

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MORTGAGE BANKING

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MORTGAGE MARKET TRENDS

Long-term interest rates had been remarkably stable for most of the first three months of this year. Yields on 10-year Treasury bonds fluctuated within a very narrow range around 7¼ percent. Then, during the last week of March and the first week of April long-term rates increased sharply—up about 40 basis points. While interest rates have retreated somewhat recently, there is some concern that the financial market developments of late March and early April signal the beginning of a significant rise in interest rates in the months ahead. MBA economists believe that while interest rates are at or near their trough for the current business cycle, they are most likely to remain near current levels for the remainder of this year.

The recent runup of interest rates was largely in response to international developments. The dollar's continued fall in exchange markets since early this year renewed fears in credit markets that foreign sources of capital might be frightened away, and that the Federal Reserve might be forced to tighten monetary policy as a means of restoring confidence in the currency.

Domestic economic developments were also a contributing factor. Employment gains in January and February were quite strong, suggesting that the economy may be breaking out of the lethargic growth path it has been in since mid-1984. Moreover, both consumer prices and prices of finished producer goods rose faster in January and February than they had been in 1986.

MBA economic analysis of underlying developments does not, however, suggest a serious threat of a fundamental worsening of inflation, mainly because economic growth is likely to remain quite moderate. Although first quarter gross national product (GNP) growth was apparently in the 3 to 3½ percent range at an annual rate, and thus well above the 1.1 percent growth pace of the fourth quarter of last year, the principal source of this growth was a sharp turnaround in non-farm inventory investment. Aside from inventory investment, the economy remained weak. Real personal consumption expenditures—the largest component of GNP—likely declined during the first quarter, reflecting lower auto sales. Data on construction outlays and shipments of non-defense capital goods suggest that real business fixed investment also declined. Residential investment may have increased somewhat during the first quarter due to a rise in single-family housing starts, but this stimulus to growth was not large.

Indeed, more recent indicators support this view. In March, total employment at non-farm establishments rose just 164,000 while the number of jobs in the manufacturing sector fell by 24,000. This suggests that part of the first quarter inventory buildup was involuntary and will be followed by a more moderate rate of accumulation this quarter. Consequently, real GNP growth in the second quarter is expected to dip below a 2 percent annual rate.

During the four quarters of 1987, real GNP is expected to rise a bit more than 2½ percent—a stronger growth rate than in 1986, but generally in line with the average since mid-1984. Continued moderate real growth is also expected to limit increases in wages and costs this year, and thus help ward off the threat of a serious worsening of inflation. Nonetheless, with oil prices back to the $17 range, and with import prices rising somewhat more rapidly, consumer prices are expected to increase about 4 percent in 1987, compared with less than 2 percent in 1986.

While credit markets will probably be buffeted periodically during 1987 by worries about the dollar's international value, continuation of moderate economic growth and the avoidance of a fundamental worsening of inflation will be a calming influence. Thus, interest rates are likely to remain near current levels for the remainder of this year.

This expectation, if realized, would be favorable for housing markets. In the one- to four-family area, the strength of starts early this year partly reflected favorable winter weather in some parts of the country and the effects of the decline in mortgage interest rates since last fall. Just as they did in 1986, single-family starts are likely to decline modestly in an environment of stable mortgage interest rates. Even so, for the year as a whole, single-family starts in 1987 are expected to be equal to, or slightly above, their 1986 level. In the multifamily area, the contribution of high vacancy rates and tax reform is expected to reduce starts to around a 400,000 annual rate before year-end.

Richard W. Peach
Senior Economist
April 8, 1987

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1986												
SEP	154	108	46	1,689	1,185	504	152	103	49	1,603	1,144	459
OCT	155	109	46	1,657	1,199	458	146	103	43	1,565	1,109	456
NOV	116	83	33	1,637	1,200	437	109	72	37	1,613	1,083	530
DEC	114	80	34	1,808	1,334	474	132	82	50	1,910	1,282	628
1987												
JAN	104	74	30	1,804	1,323	481	99	68	31	1,690	1,186	504
1986 TOTAL	1,806	1,263	543				1,762	1,186	576			
1985 TOTAL	1,742	1,166	576				1,733	1,077	657			
2 MONTHS												
1987	207	150	57				199	144	55			
1986	223	150	73				228	142	86			
1985	200	134	66				205	127	78			
1984	239	164	75				243	152	91			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1986																
SEP	29	27	61	37	288	271	704	426	30	28	53	41	297	258	597	451
OCT	27	27	60	40	267	247	680	463	27	27	52	40	260	249	598	458
NOV	22	20	43	31	273	275	608	481	19	21	41	29	260	287	605	461
DEC	19	19	39	36	307	397	593	489	21	19	43	49	306	318	574	712
1987																
JAN	15	16	43	30	319	420	585	480	14	14	41	29	294	389	570	437
1986 TOTAL	294	296	733	484					287	292	679	504				
1985 TOTAL	252	240	782	468					260	237	753	484				
2 MONTHS																
1987	24	30	88	65					29	30	84	56				
1986	27	21	113	63					27	24	111	66				
1985	17	14	106	63					24	15	103	64				
1984	16	20	138	65					18	21	133	70				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands) EXISTING HOUSES[1]	NEW HOMES Sold	NEW HOMES Available For Sale	NEW HOMES Months Supply at Current Rate	VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions) Seasonally Adjusted Annual Rate Total	1 Unit	2+ Units	Non-res.	CONSTRUCTION STATUS (Units in thousands) Seasonally Adjusted Annual Rate Under Construction Total	1-4 Units	5+ Units	Completions Total	1-4 Units	5+ Units
1986														
SEP	317	60	357	5.9	231.7	106.6	31.8	93.3	1,154	678	476	157	112	45
OCT	326	54	362	6.3	231.3	106.9	32.6	91.8	1,143	675	468	167	117	50
NOV	266	48	358	6.3	230.6	107.1	33.1	90.4	1,125	667	458	148	106	41
DEC	268	49	366	5.9	226.2	107.5	30.3	88.4	1,104	658	446	175	120	55
1987														
JAN	215	52	358	6.4	220.8	108.1	31.1	81.6	1,088	657	430	137	91	46
1986 TOTAL	3,565	749										1,756	1,206	550
1985 TOTAL	3,214	688										1,704	1,170	534
2 MONTHS														
1987	456	106										251	167	84
1986	430	114										240	158	83
1985	386	98										240	163	77
1984	380	110										221	153	68

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	1-4 UNITS Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1986										
JUL	60,720	16,534	21,687	18,946	3,553	47,350	15,860	18,639	12,360	491
AUG	60,316	14,901	21,848	20,803	2,764	44,713	13,383	18,034	12,854	442
SEP	58,193	14,360	20,289	20,576	2,968	42,621	12,648	16,668	12,870	435
OCT	56,285	12,659	20,760	19,781	3,085	41,901	11,535	16,992	12,985	389
NOV	52,157	12,703	16,813	18,141	4,500	37,493	12,136	13,634	11,307	416
1986 TOTAL	603,948	142,884	218,118	205,503	37,443	438,441	131,628	176,063	126,936	3,814
1985 TOTAL	369,343	68,065	145,372	127,873	28,033	241,474	62,658	109,286	68,224	1,306
12 MONTHS										
1986	362,309	88,484	133,617	119,527	20,681	438,441	131,628	176,063	126,936	3,814
1985	221,217	42,705	89,760	74,201	14,551	242,112	63,296	109,286	68,224	1,306
1984	202,126	36,858	90,347	64,461	10,460	199,228	47,589	96,187	54,626	826
1983	179,373	43,386	66,210	60,976	8,801	197,527	59,672	81,524	55,605	726

LENDER ACTIVITY (Cont'd.)

LONG-TERM LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1986										
JUL	$3,034	$464	$1,345	$598	$627	$10,336	$210	$1,703	$5,988	$2,435
AUG	3,596	862	1,711	719	304	12,007	656	2,103	7,230	2,018
SEP	4,769	1,326	1,897	1,312	234	10,803	386	1,724	6,394	2,229
OCT	3,560	735	1,933	735	157	10,824	389	1,835	6,061	2,539
NOV	2,661	190	1,537	576	358	12,003	377	1,642	6,258	3,726
12 MONTHS										
1986	39,363	7,172	19,877	8,591	3,723	126,134	4,084	22,168	69,976	29,906
1985	28,392	2,746	15,612	7,262	2,772	99,941	3,114	20,485	52,387	23,955
1984	20,588	443	13,160	5,519	1,466	75,246	2,784	20,135	37,631	14,696
1983	16,169	566	8,521	5,485	1,597	60,965	3,102	13,837	30,410	13,616

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1986										
JUL	$45,221	$10,430	$23,101	$8,853	$2,837	$137,634	$27,902	$53,058	$36,389	$20,285
AUG	50,492	10,930	20,522	16,183	2,857	167,546	28,195	51,546	67,517	20,293
SEP	48,050	11,297	19,442	15,024	2,287	159,746	25,320	51,957	62,601	19,868
OCT	43,470	8,959	19,202	12,593	2,716	138,410	17,784	49,878	51,605	19,143
NOV	35,692	8,263	17,111	7,554	2,764	129,766	20,974	48,994	40,726	19,072
1986 TOTAL	527,397	128,480	231,915	127,902	39,100					
1985 TOTAL	324,089	59,551	170,755	61,311	32,472					
12 MONTHS										
1986	527,397	128,480	231,915	127,902	39,100					
1985	324,089	59,551	170,755	61,311	32,472					
1984	258,986	44,893	146,184	47,065	20,844					
1983	249,401	70,128	123,361	38,195	17,717					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1986												
SEP	274	141	51	82	191	13,095	82	4,805	48	3,467	61	4,823
OCT	249	128	38	83	162	11,293	75	4,556	28	2,024	59	4,713
NOV	201	101	38	62	191	12,960	112	6,927	32	2,257	47	3,776
DEC	215	111	39	65	176	12,313	88	5,531	39	2,768	49	4,014
1987												
JAN	208	120	41	47	175	12,143	95	5,864	38	2,718	42	3,561
1986 TOTAL	3,283	1,908	452	923	1,770	122,474	839	51,616	345	24,720	586	46,138
1985 TOTAL	2,194	902	251	1,041	1,261	83,305	338	19,784	192	13,046	731	50,475
2 MONTHS												
1987	451	273	83	95	n.a.	n.a.	n.a.	n.a.	82	5,973	75	6,373
1986	416	266	49	101	207	13,892	90	5,432	37	2,546	80	5,914
1985	215	49	30	136	166	10,760	30	1,704	24	1,590	112	7,466
1984	244	53	36	155	210	13,484	34	1,846	66	2,993	129	8,645

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1986										
SEP	4,248	4,649	86,359	7,357	10,943	10,658	12,485	13,090	36,333	12,861
OCT	2,375	3,784	89,573	5,535	11,595	9,356	11,566	11,401	9,859	10,221
NOV	1,811	2,549	93,525	5,636	8,926	9,356	9,862	10,540	13,319	9,612
DEC	1,272	2,336	97,174	5,494	n.a.	n.a.	n.a.	n.a.	10,377	12,123
1987										
JAN	948	1,364	101,687	6,363	n.a.	n.a.	n.a.	n.a.	13,932	10,624
1986 TOTAL	32,987	30,826	—	60,566	n.a.	n.a.	n.a.	n.a.	152,911	98,169
1985 TOTAL	20,225	19,848	—	23,649	44,085	46,762	44,012	44,085	64,360	45,868
2 MONTHS										
1987	1,860	2,343	—	11,054	98,190	100,236	92,186	90,852	25,600	20,316
1986	3,893	2,347	—	6,942	41,009	43,337	37,917	35,119	16,076	10,304
1985	3,195	3,502	—	2,733	26,968	28,427	17,747	16,171	8,755	5,354
1984	3,702	2,792	—	1,377	29,660	31,143	21,216	20,256	6,922	5,748

*FHLMC Year-to-date totals are periods Jan.-Nov. 1983-1986.

INTEREST RATES AND YIELDS

YEAR AND MONTH	1- to 4-UNIT MORTGAGES: FHA OPINION SURVEY: FHA New[4]	FHA OPINION SURVEY: CONVENTIONAL New	FHA OPINION SURVEY: CONVENTIONAL Existing	FHLBB SURVEY: CONVENTIONAL New	FHLBB SURVEY: CONVENTIONAL Existing	FNMA: 1 Yr. ARM (1%/Yr.)	FNMA: FRM Conv.	APARTMENTS[5]
1986								
OCT	9.80	9.89	9.85	10.02	9.97	7.75	9.425	12.09
NOV	9.26	9.47	9.47	9.91	9.84	7.76	9.440	11.54
DEC	9.21	9.33	9.36	9.69	9.65	7.94	8.973	11.09
1987								
JAN	8.79	9.09	9.10	9.51	9.53	8.31	8.815	10.81
FEB	8.81	9.04	9.04	9.23	9.21	8.48	8.668	10.25

CURRENT SECONDARY MARKET YIELDS

YEAR AND MONTH	GNMA[6]	FNMA[6]	FHLMC[6]
1986			
OCT	9.05%	9.12%	9.16%
NOV	8.78	8.91	8.94
DEC	8.40	8.48	8.50
1987			
JAN	8.22	8.31	8.26
FEB	8.06	8.21	8.17

SELECTED SECURITIES

YEAR AND MONTH	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1986				
OCT	9.48%	7.43%	5.26%	5.68%
NOV	9.31	7.25	5.42	5.76
DEC	9.08	7.11	5.53	6.10
1987				
JAN	8.92	7.08	5.44	5.84
FEB	8.82	7.25	5.59	6.05

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1986				
OCT	49	162	169	173
NOV	18	153	166	169
DEC	29	129	137	139
1987				
JAN	−13	114	123	118
FEB	−3	81	96	92

NA—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.